

**Fact Sheet****May 2007****Fees and Charges Assessed by the Commodity Credit Corporation for Loans and Transfers****Overview**

This fact sheet explains various fees and charges associated with cotton loans, loan settlements, loan deficiency payments (LDPs) and the movement of cotton loan collateral (referred to as a cotton transfer).

USDA's Commodity Credit Corporation (CCC) marketing assistance loans (MAL) enable producers to store their production after harvest, thereby increasing producers' opportunities to sell and extend their market decisions. The following fact sheets provide additional information about these loan programs for cotton: Non-recourse Marketing Assistance Loan and Loan Deficiency Payment Program (June 2003); Extra Long Staple Cotton - Summary of 2000 Commodity Loan Program (January 2003); and Upland Cotton - Locking the Adjusted World Price [AWP] for Loan Deficiency Payments (October 2002).

Loan and LDP Fees

CCC assesses a fee to cover a portion of the administrative costs for providing the loan. This loan service fee is deducted from the total amount of the loan before the loan is disbursed to the producer. The loan service fee is the smaller of ½ of 1 percent (.005), multiplied by the gross loan amount, or \$7.50 per loan plus 90 cents for each bale. No further service

fee is assessed when the LDP is dispersed.

Research and Promotion Fees

Under regulations for administering the Cotton Research and Promotion Act, CCC collects research and promotion fees. These fees are deducted from upland cotton loan proceeds and LDPs and paid by CCC directly to the Cotton Board. By statute, the amount of the fee for loans is different from the fee deducted from LDPs. For loans, the fee is \$1.00 per bale plus ½ percent of the total loan value. For LDPs the fee is ½ percent of the LDP.

Cotton Clerk Fee

If a cotton clerk prepares loan documents at the request of a producer, the clerk may collect fees deducted from the loan proceeds, not to exceed the following rates: 25 cents for the first bale plus 15 cents for bales two through six; for seven or more bales, \$1.00 plus 10 cents for each bale over six.

Charges Due at Time of Collateral Forfeiture

Producers must refund certain warehouse charges to CCC if their cotton is delivered to the warehouse but their loan is not repaid. Producers should be aware of the amounts due for these charges before they elect to forfeit the cotton to CCC.

Storage from Date of Warehousing to Loan Date (Pre-loan Storage Charges)

In the event that cotton loan collateral is forfeited, CCC bills the producer for the storage charges that accrued from the warehouse receiving date to the date that the loan begins. The date that the loan begins is defined as the "documents received date" of the loan. This date is the latter of 1) the date all loan application documents were received, or 2) the date warehouse receipts were received by CCC. These charges are based on the warehouse storage rate for loan cotton (also referred to as the CCC-loan storage rate).

Storage Charges during the Loan Period

Effective for 2006-crop upland and ELS cotton, any reduction in the loan repayment amount for accrued storage, or any payment of storage charges for loan collateral that is delivered to CCC in satisfaction of the loan obligation, are the lesser of the warehouse's 2005-crop tariff rate or the maximum rate in the state where stored. In Arizona and California the maximum rate is \$4.37 per bale per month, and \$2.66 per bale per month for warehouses located in all other states.

If a cotton loan is repaid, the storage charges that accrued while

the cotton was under loan may be totally or partially subtracted from the loan repayment amount. The amount of this deduction depends on the level of the adjusted world price (AWP) bale value on the repayment date and the rate used by CCC to calculate storage credits. The CCC storage-credit rate may be less than the CCC-loan storage rate set by the warehouse.

If the AWP bale value is less than the bale loan value, the entire amount of the storage credit (based on the CCC storage-credit rate calculations) is deducted from the repayment amount. If the AWP bale value is equal to or above the loan value of the bale, by less than the sum of interest and warehouse storage charges that accrued during the loan, then the repayment amount is reduced by all or part of the storage credit. If the AWP bale value is above the bale loan rate by as much as or more than the sum of interest and storage charges that accrued during the loan, there is no deduction for the storage charge.

If the cotton loan collateral is forfeited to CCC, CCC automatically pays the warehouse its receiving charge and the storage charges based on the CCC-loan storage rate. CCC will bill the producer for the receiving charges, compression charges, storage charges that accrued before the loan, and any portion of the accrued storage charges during the period of the loan in excess of charges based on the storage-credit rate.

Unpaid Compression Charges

Starting with the 2006 crop,

producers forfeiting cotton to CCC will be billed for any unpaid compression charges. The amount billed will be the actual compression charge levied by the gin/warehouse that shows as unpaid on the warehouse receipt. Ordinarily, a lien waiver must be obtained for any lien or encumbrance on the cotton tendered for a loan. Because compression charges are ordinarily paid by the buyer of the cotton, CCC does not require lien waivers for unpaid compression, but holds the producer responsible for paying compression charges for cotton forfeited to CCC.

Charges Under Cotton Transfer

A transfer of cotton means the process for a producer or the producer's authorized agent to move warehouse-stored loan collateral to another warehouse. Cotton must be represented by electronic warehouse receipts to be eligible for transfer. Transfers of cotton may result from unforeseen events such as a warehouse going out of business or storm damage. Starting with 2006-crop cotton, transfers may also be requested by producers or by authorized agents of producers. Such transfers may be requested to improve the marketing locations or provide for more timely delivery. Producers must consent to having their loan collateral transferred by either submitting a transfer request in writing to CCC or by authorizing an agent to do so.

If CCC informs a producer that cotton loan collateral must be moved for any reason, the producer may either agree to the transfer or redeem the cotton

from loan at the initial warehouse. Under such circumstances, if the producer elects to transfer the cotton to another warehouse, all charges are paid by the requestor. Transfer charges are listed in a table found at the end of this fact sheet.

Loan Offset and Assignment Charges

A loan offset charge is an amount deducted from a loan or LDP to pay an amount owed to CCC, the FSA, or other federal creditors, or other debts having lien status under state law. An assignment charge is a transfer of a person's right for a payment to another party.

For More Information

Further information on this and other FSA programs is available from local FSA offices or on FSA's Web site at: www.fsa.usda.gov.

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Charge	Loan Without Transfer	Transfer of Loan Collateral	
		Shipping (Original) Warehouse	Receiving Warehouse
Receiving at warehouse	Paid by buyer upon load-out. If collateral is forfeited, paid by CCC, then billed to producer.	Paid by requestor of transfer.	Paid by requestor of transfer at load-out. If forfeited, paid by CCC, then billed to producer.
Pre-loan Storage	Paid by producer or buyer. If collateral is forfeited, paid by CCC and billed to producer based on the CSA rate for loan cotton.	Paid by requestor of transfer.	Not applicable. Cotton is under loan when received under a transfer.
Accrued Storage During Loan Period	Paid by buyer for re-deemed cotton. CCC may reduce the loan repayment amount by all or a portion of the storage charges during the loan period based on CCC's storage credit rate for the warehouse. If cotton forfeits, charges are paid by CCC and any amount exceeding the storage-credit rate is billed to producer.	Paid by requestor of transfer.	Paid by buyer for re-deemed cotton. The loan redemption amount may be reduced based on the CCC storage credit rate applicable at the <u>shipping warehouse</u> for the entire loan period; credits are reduced by a fixed 2-day period for time in transit and may be subject to the 75-day limit from date new EWR is issued by receiving warehouse. If cotton forfeits, CCC pays receiving warehouse based on its rate for loan cotton; any amount exceeding the storage-credit rate at receiving warehouse is billed to producer.
After Loan Storage	Paid by buyer. If forfeited, CCC pays the warehouse at the CSA rate for CCC owned cotton.	Not applicable because under a transfer any after-loan storage charges would occur at the receiving warehouse.	Paid by buyer. If forfeited, CCC pays the warehouse at the CSA rate for CCC owned cotton.
Compression	Paid by buyer upon load-out, regardless of whether loan is repaid or if cotton is bought from CCC. If cotton forfeits, billed by CCC to producer.	Paid by requestor of transfer.	Paid by buyer upon load-out, regardless of whether loan is repaid or if cotton is bought from CCC. If cotton forfeits, billed by CCC to producer based on rate at receiving warehouse.
Load-out	Paid by buyer.	Paid by requestor of transfer.	Paid by buyer.
Freight to Receiving Warehouse	Paid by producer.	na	Paid by requestor of transfer.